**2011 Household Incomes Report:**

**Background and Summary of Key Findings**

**Background**

**What is the Household Incomes Report and what period does it cover?**

* The Household Incomes Report (the ‘Incomes Report’) provides information on trends in the material wellbeing of New Zealanders as indicated by their after-tax household incomes from all sources, 1982 to 2010.
* The Incomes Report is an annual Ministry publication, prepared as part of its work on monitoring and understanding social and economic wellbeing.
* It is based on data from Statistics New Zealand’s Household Economic Survey (HES).
* The interviews for the latest ‘2010’ figures were carried out by Statistics New Zealand from July 2009 to June 2010 (the ‘2010 HES’). The income question asked about incomes in the twelve months prior to interview. This means that the income information overall comes from the two-year period from July 2008 to June 2010 – on average from mid 2009.
* The findings capture virtually all the impact of the October 2008 income tax changes, some of the impact of the April 2009 tax changes, but none of the impact of the October 2010 tax changes.
* The 2010 survey is the first HES to begin to capture the impact on incomes of the global financial crisis and related economic slowdown in 2008 and 2009. The delay in registering any impact arises because (a) the incomes of the bulk of New Zealand households were not affected immediately by the recession – there is a lagged impact, and (b) many of those interviewed in the 2009 HES were reporting their incomes mainly for the pre-recession period.

**What types of information does the report provide?**

* Long-run trends (usually 1982 to 2010) for:
* household incomes
* income inequality
* income poverty rates (proportions below various low-income thresholds)
* children in workless households
* housing costs relative to incomes
* sources of income for older New Zealanders.
* Relativities between various population groups (eg by age, household type, hours worked)
* which groups are most at risk?
* which groups make up the largest proportions of those identified as ‘in poverty’?
* Short-run changes in income poverty and inequality
* some care is needed in drawing definitive conclusions from relatively small changes from one survey to the next, especially for smaller subgroups
* the findings are more robust for longer-run trends and subgroup relativities.
* International comparisons which locate New Zealand relative to EU nations and other OECD nations on income-based poverty and inequality measures.

**Poverty and hardship are multi-dimensional: this report focuses on the incomes dimension**

Inequality, poverty and hardship are multi-faceted and multi-dimensional. The focus for the Household Incomes Report is on the incomes dimension. Income matters, but it is the cumulative impact of multiple disadvantage across different domains that has the significant negative impact on life chances and outcomes, especially for children.

**The income measure used in the report**

* The income measure used is household after-tax cash income from all sources for the previous twelve months, adjusted for household size and composition. This is referred to as equivalised disposable household income.
* Household income is used as a measure of a household’s material wellbeing or living standards. The approach is well-established internationally and produces very useful findings on trends in relative material wellbeing over time and between different subgroups.
* A household’s after-tax income is affected by a range of factors: wage rates, total hours worked by the adults in the household, rates of social assistance, returns on investment, personal income tax rates and tax credits for families with children.

Incomes before and after deducting housing costs (BHC and AHC)

* The report uses household incomes both before and after deducting housing costs (BHC and AHC respectively), especially for poverty measurement. All else equal, those with higher housing costs have less ‘residual income’ (AHC) for other necessities (food, clothing, transport, heating and health care). For households with lower incomes to start with, high housing costs place considerable constraints on their living standards.
* Housing costs are, in the short term at least, a fixed cost that households have to meet. The AHC income measure is therefore important for a central goal of the report, which is to assess and report on differences in material wellbeing across different groups, using household income as the indicator. The AHC measures allow more sensible comparisons between groups with quite different housing costs but similar BHC incomes.

**Using non-monetary indicators to measure hardship**

Another approach to assessing the relative material wellbeing of households is to use non-monetary indicators (NMIs) – including basic items that households have or don’t have, the degree of restriction or freedom for consumption on a range of items, the ability to pay for housing, heating, food and so on. NMIs give a more direct indication of material wellbeing, especially for those households with lower living standards, and is an approach that is gaining credibility internationally as a valid complement to the incomes approach.

The Ministry’s Living Standards Surveys (2000, 2004 and 2008) gathered information on NMIs and a report based on the 2008 survey is available on the Ministry’s website. The HES has also started to collect information on NMIs and this data is used in the main report in Appendix 6.

**Poverty measures used in the report**

* Poverty in developed nations is about relative disadvantage – it is about households and individuals who have a day-to-day standard of living or access to resources that fall below a minimum acceptable community standard.
* This report uses household income as an indicator of resources available to households.
* New Zealand does not have an official poverty measure. The low-income thresholds or poverty lines used in the report (50% and 60% of median household income) are widely used in the EU and OECD nations.
* The report uses two quite different ways of updating the low-income thresholds or ‘poverty lines’ over time and reports trends using both approaches.
* The ‘fixed line’ approach anchors the poverty line in a reference year, then adjusts it each survey with the CPI. On this approach a household’s situation is considered to have improved if its income rises in real terms, irrespective of whether its rising income makes it any closer or further away from the middle or average household. The reference year has to be updated from time to time to reflect changing middle incomes and the associated changing notions of a minimum acceptable standard.
* The ‘moving line’ or ‘relative’ approach sets the poverty line as a proportion of the median income from each survey so that the threshold changes in step with the incomes of those in the middle of the income distribution. On this approach the situation of a low-income household is considered to have improved if its income gets closer to that of the median household, irrespective of whether it is better or worse off in real terms.
* Prior to the last year’s report, 1998 was used as the reference year for the ‘fixed line’ approach. The rapid rise in median income from 1998 to 2009 (27% in real terms) led to a change of reference year to 2007 in last year’s report.
* The change of reference year from 1998 to 2007 has implications for reporting on trends using the fixed line approach. For example, a 60% of median poverty line with 2007 as the reference is equivalent to an 80% poverty line in 1994. The general trend from 1994 to 2010 on this measure is similar to what it is using 1998 as the reference year, but the actual reported poverty rate for 1994 is unrealistically high. The report addresses these issues by:
* reporting poverty figures back to 2001 using the 2007 reference year, to give an indication of more recent changes on this measure
* reporting poverty figures from 1982 to 2007 using the 1998 reference year, thus giving a six year overlap (2001 to 2007) using both measures.
* The report takes fixed line measures as the more fundamental in the sense that they reveal whether the incomes of low-income households are rising or falling in real terms. Whatever is happening to the incomes of the ‘non-poor’, if more and more people end up falling below a fixed line threshold, then in the population at large there is likely to be wide concern about increasing poverty and hardship.

* Moving line measures are also important as they provide an indication of trends showing the distance between low-income and middle-income households. This focus gives information relevant for better understanding social cohesion and inequality in the lower half of the income distribution.

**Understanding the impact of changing incomes and changing housing costs on measured poverty rates**

**Figure S.1** can assist with interpreting changes in poverty rates over time on the different measures. The left-hand column gives the three main factors that can affect poverty rates over time. It is often the case that from one time period to another more than one of these factors changes. The other four columns indicate the direction of the resultant impact on poverty rates for the different measures.

**Figure S.1**

**Impact of changes in the median, low incomes and housing costs on different poverty measures**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **when these increase ….** | **… the impact on the measured poverty rate is …** | | | |
|  | BHC | | AHC | |
|  | fixed line (ref = 2007) | moving line (REL) | fixed line (ref = 2007) | moving line (REL) |
| BHC incomes around the median **🡩** | no impact | **🡩** | no impact | **🡩** |
| BHC incomes in the bottom quintile (20%) **🡩** | 🡳 | 🡳 | 🡳 | 🡳 |
| Housing costs (for low-income HHs) **🡩** | no impact | no impact | **🡩** | **🡩** |

**Summary of Key Findings**

**Glossary**

* **‘income’** in the Incomes Report refers to household income from all sources after income tax is paid and transfers received, and after adjustment for household size and composition (equivalised disposable household income)
* **AHC** income is household income after deducting housing costs

**BHC** income is household income before deducting housing costs

* when a household spends more than 30% of its income on accommodation it is said to have a **high OTI** (‘outgoings-to-income’ ratio)
* **poverty rates** are usually reported using AHC measures, for both fixed and moving line thresholds (60% of median) – the reference year for fixed line measures is 2007 unless otherwise stated
* **WFF** = Working for Families

**1 There was little change in real terms for household incomes (BHC) for most income groups from the 2009 HES to the 2010 HES**

* The median remained virtually unchanged in real terms from the 2009 HES to 2010 (+1%).
* Incomes at the top of each of the lower four deciles increased by 2–3% in real terms.
* For income groups above the median, incomes stayed much the same for deciles 6, 7 and 8, and fell in real terms for decile 9 (-3%) and decile 10 (-6%).
* The fall for higher-income households is likely to reflect a decline in investment income following the Global Financial Crisis and the stagnation of some higher salaries.

**2 For the 25 years from the low point in 1994 through to 2009 there was a steady rise in the median income in real terms, with different income groups faring differently at different times**

* Median household income grew 46% in real terms from the low point in 1994 to 2009 (47% to 2010).
* From 1994 to 2004, incomes for middle- to higher-income households grew more quickly than the incomes of the bottom third (around 28% and 15% respectively, in real terms).
* From 2004 to 2007 the WFF package led to incomes below the median growing more quickly than incomes above the median – the only period in the last 30 years in which this has happened.
* From 2007 to 2009 the growth was relatively even across all income groups (7–9%).
* The growth in median income from 1994 to 2010 was stronger for Maori (68%) and for Pacific (77%) than for European (48%) – from 2004 to 2010, the respective growth figures were 21%, 31%, 14%.
* When the mid to late 1980s are used as the starting point, a quite different perspective emerges: it took until around 2000 for the median to return to what it was in 1988, and it was only in 2007 (after WFF) that low incomes returned to what they were 20 years before.

**3 Income inequality peaked in the early 2000s, then fell from 2004 to 2007 as a result of the WFF package, and in 2010 was lower again than in 2007**

* Two common measures of income inequality are the 80:20 (or 90:10) percentile ratio and the Gini coefficient. For both measures, the higher the score the higher is inequality. While there is sometimes a difference in year-on-year detail, both measures show the same longer-run pattern for New Zealand.
* In the mid 1980s income inequality in New Zealand was low by OECD standards. It grew very rapidly from 1988 to 1992, with higher incomes increasing and lower incomes decreasing in real terms.
* This rapid change was followed by a slower but steady rise through to the early 2000s, with rises for all income groups, but greater proportionate rises for higher-income groups.
* From 2004 to 2007 inequality fell mainly as a result of the WFF package which boosted incomes for low to middle income households with children.
* Inequality remained much the same from 2007 to 2009 – the 80:20 ratio declined a little and the Gini rose. From 2009 to 2010, inequality declined on both measures.
* The lower figures in 2010 compared with 2007 reflect two changes: (a) the recent (2009 to 2010) decline in real incomes for the top two deciles (lower investment returns especially), and (b) a small real gain for lower deciles.
* On the latest OECD figures (c2008), New Zealand’s Gini score of 33 was close to those of Australia and the UK (34), Japan (33) and Canada (32), and a little above the OECD-34 median (31). Countries such as Denmark, Norway and Sweden have lower than average inequality (Ginis of 25-26). The US score is 38. New Zealand’s Gini score in 2010 was 32.
* The tax and transfer system significantly reduces the inequality that would otherwise exist. For example:
* For half of households with dependent children the amount received through welfare benefits and tax credits is greater than or equal to the amount they pay in income tax.
* Single-earner two-child families with less than $55,000 from wages pay no net income tax. They receive more from WFF tax credits than they pay in income tax and ACC.
* When all households are counted (working age with children, working age without children, and 65+ households), and looking at households grouped in deciles rather than looking at individual households, the total income tax paid by each of the bottom five deciles is less than the total transfers received (tax credits, welfare benefits, NZS and so on). It is only for each of the top five deciles that total income tax paid is greater than transfers received.
* Wealth is distributed much more unequally than income. Wealth Gini scores are typically two to three times those for income. In New Zealand, those in the top income decile receive 25% of gross income; those in the top wealth decile hold 50% of the total wealth. New Zealand’s top decile wealth share is similar to those found in many other OECD countries: Australia and the UK (45%), Germany (52%), Canada (53%) and Sweden (58%). For the US it is around 70%. New Zealand’s wealth inequality is not unusual for OECD countries.

**4 The proportion of households with high OTIs was a little lower in 2010 (25%) than in 2007 (27%) and 2009 (28%)**

* 25% of households had high OTIs in 2009, close to the same as in 1998 (24%) and much higher than in 1988 (11%) (**Figure S.2**).
* This rising long-run trend applies to all income groups, but high OTIs are of particular concern for low-income households as this can mean there is insufficient income left to properly meet other basic needs such as food, clothing, transport, medical care and education
* In 2001, 42% of households in the lowest income quintile had high OTIs, but this fell to 34% by 2004 reflecting the introduction of income-related rents for state house tenants, and remained steady through to 2009 (33%).
* The proportion of households with high OTIs in the second-lowest income quintile rose from 27% in 2001 to 34% in 2009, very close to the 2009 figure for the lowest quintile (33%).
* In 2009, 37% of children lived in households with high OTIs, a rise from 32% in 2007, and 26% in 2004. The 2004 figure was the lowest proportion for some time, following the introduction of income-related rents in 2001 (when the proportion with high OTIs was 32%). In 1988, the rate for children was 12%.

**Figure S.2**

**Proportion of HHs with housing cost OTIs greater than 30%, by income quintile**



Note: There is some uncertainty about the reliability of the figures for the lower quintiles for 2010, so the report is holding off making comment on these trends until the 2011 data is available.

**5 The population poverty rate was unchanged from 2009 to 2010 on the AHC fixed line measure (15%), bringing to an end the steady decline (ie improvement) on that measure that began in 1994. The rate also remained unchanged on the AHC moving line measure (18%)**

* Using the AHC fixed line measure (60% of median), the poverty rate for the population as a whole fell from 2007 (18%) to 2009 (15%), continuing the downward trend that began from 1994. There was no change from 2009 to 2010.
* The fall from 2007 to 2010 using the fixed line measure indicates that the average AHC income for low-income households is higher in real terms in 2010 than in 2007.
* Housing costs were a much greater proportion of household income for low-income HHs in 2010 than in 1980s. This increase cancelled out the gains in BHC incomes for low-income households, leaving fixed line poverty rates much the same in 2010 as in the 1980s.
* Using the AHC moving line measure, the population poverty rate remained steady at 18% from 2007 to 2010, much the same as it was through the mid 1990s, but double what it was in 1984 (9%).
* From 1994 to 2010, AHC incomes for low-income households rose at about the same rate as the rise in the median, thus producing little change to the moving line poverty rate from 1994 to 2010 (reasonably steady in the 18% to 20% range).
* The trend using the moving line measure reflects a different notion of poverty – for the moving line measure the focus is on how well low-income households are faring relative to the median rather than relative to a fixed benchmark.

**Table S.1:**

**Population poverty rates (%) on four measures**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **AHC** | | | **BHC** |
|  | AHC ‘fixed line’ 60% | AHC ‘moving line’ 60% | AHC ‘moving line’ 50% | BHC ‘moving line’ 60% |
| 1998 | - | 18 | 13 | 16 |
| 2001 | 25 | 20 | 13 | 18 |
| 2004 | 22 | 20 | 14 | 21 |
| 2007 | 18 | 18 | 13 | 18 |
| 2009 | 15 | 18 | 13 | 18 |
| 2010 | 15 | 18 | 11 | 18 |

Notes: (1) The reference year for the fixed line figures is 2007.

(2) The BHC 60% moving line measure is the one used by the EU – the median EU population poverty rate in 2008 was 16% on this measure.

(3) The rising rate from 1998 to 2004 on the BHC measure reflects the fact that median household income increased much more rapidly than low incomes did in the period. Without WFF the population poverty rate on this measure would have continued to rise from 2004 to 2009.

* In 2010, the total population figure was 4.26m – on the measures in Table S.1, between 500,000 and 750,000 people were in households with incomes below the low-income thresholds (ie ‘in poverty’).
* In 2010, on the Social Report measure (AHC ‘fixed line’ 60%), there were 630,000 (15%) below the low-income threshold (ie ‘in poverty’), down from 930,000 (25%) in 2001.

**6 Child poverty rates were the same in 2010 as in 2009 using both the fixed line AHC measure (22%), and the 60% AHC moving line measure (25%)**

* Using the AHC fixed line measure, the child poverty rate fell strongly from 1994 to 2007, but plateaued from 2007 to 2009, settling at 22%. This is around the rate that prevailed in the 1980s if the same 2007 reference year standard is used.
* From 2007 to 2010, BHC incomes increased for low-income households with children, and housing costs rose – these two factors cancelled each other out to give the ‘no change’ finding on the fixed line AHC measure.
* On the AHC moving line measure, the child poverty rate increased from 2007 (22%) to 2010 (25%), reflecting the rise in the proportion of households with children which had high OTIs.
* On this moving line measure, the 2010 child poverty rate is around double the rate that prevailed in the early 1980s on this moving line measure.
* The longer-run findings on child poverty reflect the fact that AHC incomes in 2010 for low-income households were around the same as they were in the early 1980s in real terms, but that relative to the median the incomes of lower-income households with children had fallen away (ie higher inequality in 2010 than in the early 1980s).

**Table S.2:**

**Child poverty rates (%) on four measures**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **AHC** | | | **BHC** |
|  | AHC ‘fixed line’ 60% | AHC ‘moving line’ 60% | AHC ‘moving line’ 50% | BHC ‘moving line’ 60% |
| 1998 | - | 28 | 20 | 20 |
| 2001 | 37 | 30 | 21 | 24 |
| 2004 | 31 | 28 | 19 | 26 |
| 2007 | 22 | 22 | 16 | 20 |
| 2009 | 22 | 25 | 18 | 19 |
| 2010 | 22 | 25 | 16 | 20 |

Notes: (1) The reference year for the fixed line figures is 2007.

(2) The BHC 60% moving line measure is the one used by the EU – the median EU child poverty rate in 2008 was 20% on this measure.

(2) The rising rate from 1998 to 2004 on the BHC measure reflects the fact that median household income increased much more rapidly than low incomes did in the period – without WFF the child poverty rate on this measure would have continued to climb to around 30% by 2009.

* In 2010, there were 1.07m dependent children (under 18) – on the measures in Table S.2, between 170,000 and 270,000 children were in households with incomes below the low-income thresholds (ie ‘in poverty’).
* In 2010, on the Social Report measure (AHC ‘fixed line’ 60%), there were 230,000 (22%) children in households below the low-income threshold (ie ‘in poverty’), down from 380,000 (37%) in 2001.

**7 Poverty rates for children in beneficiary families are consistently around 70%, much higher than for children in families with at least one adult in full-time employment (11% in 2010)**

* Since the benefit cuts in 1991, around 70 to 80% of children in beneficiary families have been identified as ‘poor’ in each HES. The figure was close to 70% for 2004 to 2009.
* For beneficiary families with children, AHC incomes from main benefits, the Family Tax Credit and the Accommodation Supplement are almost always below the AHC 60% fixed line threshold.
* Why is the reported poverty rate for beneficiary children not therefore 100%? There are typically 20 to 30% of beneficiary children living in households in which over the 12 months before the HES interview there is market income as well, either from their parent(s) or from other employed adults.
* In 2010, the poverty rate for children in workless families fell to 58%. This is likely to reflect the fact that many of the ‘new’ beneficiaries in HES 2010 came from employment. Although identified as ‘workless’ or ‘on benefit’ at the time of interview, they still had sufficient income in the 12 months prior to interview to keep the household above the poverty line as measured on the annual income. The rate is expected to rise again towards 70% in the next HES.
* In June 2010 there were 230,000 children in beneficiary families (22% of all dependent children). The figures were around the same in March 2011.

**8 Nevertheless, in 2010, around two in five poor children were from households where at least one adult was in full-time employment or was self-employed, down from around one in two before WFF (2004)**

* The WFF package had little impact on poverty rates for children in beneficiary families (around 70% from 2004 to 2009), but halved child poverty rates for those in working families (21% in 2004 to 11% in 2007 and close to the same since then).
* Because there are many more children in working families than in workless or beneficiary families, the proportion of poor children who come from working families is much higher than the poverty rates themselves at first sight suggest.
* In 2010 around two in five poor children came from working families, down from just over one in two before WFF.
* The New Zealand proportion is not unusual. In OECD countries (on average), around half of poor children come from working families.

**9 Just over two of every three two-parent families were dual-earner families in 2010, up from one in two in the early 1980s, but down from nearly three in four in 2004**

* From 1982 to 2004, there was a steady rise in the proportion of two-parent families with both parents in paid employment, from 50% to 73%.
* From 2004 to 2007, the long-run trend reversed, with the dual-earner proportion dropping from 73% to 68%, and remaining steady at 67% to 68% from 2008 to 2010.
* The most common arrangement in 2010 was for both parents to be working full-time (43%, the same as in 2004), whereas in 1982, the dominant pattern (52%) was one in full-time work and the other ‘workless’ (WL), with only 20% having both in full-time work.
* From 2004 to 2010 the proportion with one in full-time work and the other workless rose from 27% to 31%, and the one full-time one part-time proportion fell from 31% to 26%.
* The two most likely factors behind the recent reversal of the increasing trend for the dual-earner proportion are: (a) the WFF package which gave couple parents greater choice about working and caring for their children by making it easier to manage on less income from the labour market, and (b) the rapid and historically large rise in the number of births from 2003 to 2007.

**10 Children in sole-parent families have a higher risk of hardship (42%) than those in two- parent families (16%)**

* Around 90% of sole-parent families had incomes below the overall median in 2009 and 2010, compared with 55% for two-parent families.
* The higher poverty rate and low family incomes for sole-parent families reflects the relatively low full-time employment rate for sole parents (35% in 2009). 73% of sole parents were in receipt of a main benefit in June 2009.
* From 2007 to 2009 half of poor children were from sole-parent families, the highest proportion since the time series began in 1988. In 2010 the proportion had dropped to 44% as more two-parent families found their incomes falling below the poverty threshold in the economic downturn in 2008-09.
* Around one in three sole-parent families live in wider households with other adults. Children living in these sole-parent families generally have lower poverty rates than those in sole-parent families living on their own because of the wider household financial resources available to them, both directly and indirectly.

**11 Poverty rates for children in the Maori and Pacific ethnic groups are consistently higher than for those in the European/Pakeha ethnic group**

* On average over 2007 to 2010, around one in six European/Pakeha children lived in poor households**,** one in four Pacific children**,** and one in three Maori children (double the rate for European/Pakeha children).
* The higher poverty rate for Maori children reflects the relatively high proportion of Maori children living in sole-parent beneficiary families and households (eg around 43% of DPB recipients were Maori in the 2007 to 2010 period).
* The sample size is too small to allow more precise poverty rates to be given for the smaller ethnic groupings.

**12 Poverty rates for working-age adults living on their own trebled from 1984 to 2007 on the AHC fixed line measure, and remained high in 2010 (28%)**

* In 2010, one person working-age households had the second highest poverty rate by household type (after sole-parent households) – the rate was high in itself (28%) and high relative to the rest of the population (15%), using the AHC fixed line measure.
* From 1984 (10%) to 2007 (30%), the poverty rate for this group trebled, using the AHC 1998 reference year measure.
* Within this group, those aged 45 to 64 years have a higher income poverty rate than the younger group (aged 18 to 44 years).

**13** **The value of New Zealand Superannuation (NZS) rose from just below to just above 50% of the median from HES 2009 to HES 2010, reflecting the very small rise in the median and the larger rise in NZS in real terms mainly as a result of the 2008 and 2009 income tax changes**

* While NZS for a couple remained steady at 66% to 68% of net average ordinary time earnings from 2001 to 2010, its value relative to median household income declined from 58% in 2001 to 48% in 2009.
* This relative decline reflects the fact that median household income rose quite strongly in real terms from 2001 to 2009 (+23%), while NZS increased only a little in real terms.
* From HES 2009 to HES 2010 the value of NZS recovered to around 51% of the median. The turnaround reflects (a) the small (+1%) real increase in median household income, and (b) the greater increase in NZS from the tax cuts of October 2008 and April 2009.
* The vast majority of older New Zealanders remain heavily dependent on NZS for their income:
* 40% have next to no other income, and the next 20%, those in the middle quintile, receive 85% of their income from NZS
* around half of older New Zealanders receive less than $100 pw from non-government sources (eg employment, private superannuation, other investment returns).
* If a 50% of median BHC poverty measure is used (as the OECD does), then the reported poverty rate for older New Zealanders shows a sudden and large increase from close to zero in 2001 to 22% in HES 2009, followed by a similarly large decrease to 13% for 2010 and probably back to close to zero for the 2011 HES after the impact of the October 2010 tax changes are captured.
* This sudden rise and fall of the income poverty rate for older New Zealanders can easily leave the misleading impression that there has been a very large and sudden change for the worse in the actual living conditions of many older New Zealanders, followed by an equally sudden improvement. Neither conclusion is warranted. The rapid changes simply reflect the existence of the strong clustering of household incomes for older New Zealanders at and just above the level of NZS (the ‘pensioner spike’) in the New Zealand income distribution.
* This sort of anomaly is one of the reasons that the Incomes Report advocates the use of AHC incomes and non-monetary indicators for assessing the material wellbeing of households.

**14 Hardship rates for older New Zealanders still remain lower than those for other age groups**

* In 2010, the 60% AHC fixed line poverty rate for the 65+ age group was 7%, compared with 12% for 45-64 year olds, 15% for 18-44 year olds, and 22% for children (aged 0-17 years).
* Similar relativities are shown using the more stringent 50% of median moving line AHC measure: 5%, 10%, 11% and 16% respectively.
* Hardship rates in 2010 were higher for those on their own (11%) than for couples (5%).
* The lower hardship rate for older New Zealanders reflects the mix of universal public provision (mainly NZS) and the private provision built up by most of the current cohort over their lifetime. A key component of this private provision is mortgage-free home ownership which is relatively high among the current cohort.

**15 International comparisons**

* The OECD and EU publish international league tables that rank countries on their income poverty rates using 50% and 60% of median poverty lines respectively.
*  On the latest available figures (2008-09) New Zealand’s population and child poverty rates are close to the overall medians for both measures.
* These league tables in effect compare how far low-income households are from the median for each country. They can be seen as comparing inequality levels in the lower half of the income distribution.
* The information is however often used as if the rankings indicate the extent of material hardship assessed against a common absolute international standard. Thus a country like the Czech Republic with a child poverty rate of 10% is considered to be ‘doing better for it’s children’ than, say, Ireland (16%), whereas in daily living the ‘poor’ in Ireland are much better off than many ‘non-poor’ in the Czech Republic.
* For meaningful international comparisons of material hardship it is better to use non-monetary indicators (NMIs). Using the official 2008 NMI-based EU deprivation index, New Zealand ranked well for older people (65+) and not so well for children – a finding consistent with that produced using the Social Report’s AHC income measure.

**16 The incomes approach for assessing relative material wellbeing has much to offer, but cannot on its own give a full picture – it needs to be supplemented with information using non-monetary indicators (NMIs)**

* The incomes approach has some well-known limitations for assessing material wellbeing of households:
* It does not take into account household assets and financial savings which can buffer against fluctuations in household income.
* It does not capture the impact of unusual costs (such as high health costs or high debt servicing costs), nor of assistance in cash or kind from outside the household.
* International poverty comparisons are especially limited because of differing average incomes across the countries being compared – see #14 above.
* A non-incomes approach can provide supplementary information to give a more complete picture as well as providing more robust findings where the incomes approach is especially limited (eg for comparing older New Zealanders with other age groups, and for international comparisons).
* For more information on non-income measures, see the Ministry’s website for its ‘Living Standards’ publications.[[1]](#footnote-1)

**17 Statistics New Zealand has collected NMI information since 2007 in the HES. The information from these questions is useful for supplementing and confirming findings using the incomes approach, and for giving a real-life description for some of the day-to-day restrictions faced by low-income households.**

* The table and graph below show:
* the different living conditions for those in the lowest income quintile compared with the majority of households
* the age gradient for hardship (in line with AHC findings using incomes)

**Figure 6.3** shows the much greater risk of hardship for the bottom two deciles, using items that are either considered necessities or which reflect the customary experience of the bulk of the population.

**Figure 6.3**

**Proportion who report not having or economising a lot on 4 or more of 11 basic items, because of cost:**

**all households, HES 2010**



The 11 items used in Figure 6.3 are of two types:

* 7 ‘enforced lacks’ of basics that the respondent ‘wants’ but cannot have or do because of the cost:
* telephone
* good pair of shoes
* heating available in all main rooms
* contents insurance
* give presents to family or friends on special occasions
* have family or friends over for a meal at least once a month
* have a week’s holiday away from home each year
* 4 ‘economising’ items. The survey gives the option of ‘not at all’, ‘a little’ and ‘a lot’ as a response. The graph uses only the more stringent ‘a lot’ response:
* gone without fresh fruit and vegetables to help keep costs down (‘a lot’)
* put off buying new clothes for as long as possible to help keep costs down (‘a lot’)
* postponed or put off visits to the doctor to help keep down costs (‘a lot’)
* did not pick up a prescription to help keep down costs (‘a lot’)

**Table S.2** shows the similarity of findings for age-groups and age-group relativities using an AHC incomes measure and the ELSI non-incomes measure.

**Table S.2**

**Comparison of age-group hardship rates based on income and non-income measures,**

**HES 2010**

|  |  |  |
| --- | --- | --- |
|  | **Income AHC CV 60%** | **ELSI levels 1-2** |
| ***Age group*** |  |  |
| 0-17 | 21 | 21 |
| 18-24 | 15 | 13 |
| 25-44 | 15 | 14 |
| 45-64 | 12 | 9 |
| 65+ | 7 | 4 |
| **Total population** | **15** | **13** |

Note: Levels 1 and 2 in the Economic Living Standards Index (ELSI) are the hardship levels for this index – see Perry (2009) for details.

**Next update**

* Mid 2012, using the 2010-2011 HES.

1. [www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/living-standards/index.html](http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/living-standards/index.html) [↑](#footnote-ref-1)